United Nations

Financial report and audited financial statements

for the biennium ended 31 December 1997 and

Report of the Board of Auditors

Volume IV
United Nations University

General Assembly
Official Records
Fifty-third Session
Supplement No. 5 (A/53/5)

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United Nations • New York, 1998

Note

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ISSN 0257–0815

[Original: English]
[31 July 1998]

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Letters of transmittal

8 July 1998

Dear Mr. Chairman,

In accordance with financial regulation 11.4, I have the honour to submit the accounts of the United Nations University for the biennium 1996–1997 ended 31 December 1997, which I hereby approve. The financial statements have been drawn up and certified as correct by the Controller.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(Signed) Kofi A. **Annan**

Mr. Vijay Krishna **Shunglu**
Chairman
United Nations Board of Auditors
New York

15 July 1998

Sir,

I have the honour to transmit to you the financial statements of the United Nations University for the biennium 1996–1997 ended 31 December 1997, which were submitted by the Secretary-General. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India
and Chairman,
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium 1996–1997 ended 31 December 1997

Introduction

1. The General Assembly adopted the charter of the United Nations University (UNU) by resolution 3081 (XXVIII) on 6 December 1973 and decided that the University would have its headquarters in the Tokyo metropolitan area in Japan. Authority for the University's policies, work programmes and budget is vested in a Council of 28 members. The Rector, who normally serves for five years, is the chief academic and administrative officer of the University.

Financing of the University

2. The charter of UNU provides that capital and recurrent costs of the University shall be met from voluntary contributions to the University, or from income derived therefrom. Contributions are made by Governments, intergovernmental organizations and non-governmental sources, including foundations, universities and individuals. The funds of the University are kept in a special account established by the Secretary-General of the United Nations.

3. The University derives its income from two sources – income from an Endowment Fund and contributions to the Operating Funds. The Endowment Fund was established to record transactions relating to the funds contributed by donors, governmental as well as non-governmental organizations. At its ninth session, held in Tokyo in December 1977, the University Council decided to establish a special segment in the Endowment Fund for the purpose of financing the University's programmes designed to assist the developing countries. The purpose of this action was to increase the funding available to the University to assist its work relevant to development. As the work of the University expanded, the Endowment and Operating Funds were enhanced by voluntary contributions to the UNU World Institute for Development Economics Research (UNU/WIDER), the UNU Institute for New Technologies (UNU/INTECH), the UNU International Institute for Software Technology (UNU/IIST), the UNU Institute for Natural Resources in Africa (UNU/INRA), the UNU Programme for Biotechnology in Latin America and the Caribbean (UNU/BIOLAC), the UNU Institute of Advanced Studies (UNU/IAS), and other specific activities, including the UNU International Leadership Academy (UNU/ILA) and the UNU International Network on Water, Environment and Health (UNU/INWEH).

4. During the period the following Governments pledged and/or made contributions to the Endowment Fund and the Operating Funds: Austria, Barbados, Canada, China, Finland, Greece, India, Iceland, Japan, Jordan, Macau, the Netherlands, Nigeria and Spain.

Financial position of the University

5. As shown in statement I, during the biennium 1996–1997, total income amounted to $84.8 million (compared with $96.2 million during the biennium 1994–1995) broken down as follows: contributions to the Endowment Fund of $0.4 million; operating and programme contributions of $27.9 million; interest income and dividends from the Endowment Fund

of $31.5 million; interest income from the Operating Funds of $1.2 million; contributions for the headquarters building of $2.3 million; and miscellaneous income of $21.5 million.

6. Total expenditure amounted to $87.8 million for this period, of which $6.5 million comprised unliquidated obligations (compared with total expenditure of $56.6 million for 1994–1995, of which $5.8 comprised unliquidated obligations).

7. The breakdown of expenditure by major object of expenditure is as follows (in millions of United States dollars):

	Amount	*Percentage*
Staff and other personnel costs[a]	25.4	28.9
Travel	2.0	2.3
Contractual services	1.6	1.8
Operating expenses	30.7	35.0
Acquisitions[b]	2.0	2.3
UNU headquarters building	4.1	4.7
Research and training networks and dissemination	22.0	25.0
Total	**87.8**	**100.0**

[a] Includes the cost of programme staff and consultants.

[b] Includes the cost of library books and supplies and programme equipment.

Statement IV contains a breakdown in respect to the approved budget for the biennium 1996–1997.

8. Statement II shows that combined assets amounting to $325.2 million and combined liabilities of $13.6 million. The assets included $10.9 million, representing pledged contributions to the University receivable from Governments, the details of which are given in schedule 2.1.

9. The funds held in cash at 31 December 1997 amounted to $66.5 million, including interest-bearing bank deposits of $65.1 million.

10. The fund balance of the Operating Funds at 31 December 1997 amounted to $33.1 million, the breakdown of which is as follows: $19.8 million for UNU headquarters, $4.7 million for UNU/WIDER, $1.9 million for UNU/INTECH, $1.2 million for UNU/IIST, $3.2 million for UNU/INRA and $2.3 million for UNU/IAS.

11. Schedule 2.1 reflects the combined status of pledges from Governments at 31 December 1997. The total amount collected during the biennium 1996–1997 was $25.2 million, leaving $10.9 million in unpaid pledges at 31 December 1997.

12. The total income from investments of the Endowment Fund amounted to $31.5 million; of which $19.1 million was allocated to UNU headquarters, $5.1 million to UNU/WIDER, $2.3 million to UNU/INTECH, $4.3 million to UNU/IIST, $0.4 million to UNU/INRA and $0.3 million to UNU/BIOLAC, in accordance with the ratio of contributions to the Endowment Fund from the respective donors.

Activities of the University

Facilities opened and new programmes launched

13. In April 1996, UNU opened its new Institute of Advanced Studies. UNU/IAS was formally established by the UNU Governing Council at its forty-second session in December 1995. The opening of UNU/IAS represents an important step in fulfilling the University's function as a United Nations think-tank and reservoir of ideas for United Nations constituencies. UNU/IAS comprises a vigorous academic community of scholars with a specific mission: to develop original, forward-looking solutions to problems at the interface of societal and natural systems. The Institute is located in a five-story, 6,000-square-metre complex adjacent to the UNU Centre in Tokyo. It contains the essential infrastructure for research and postgraduate education programmes, as well as housing for fellows and visiting scholars.

14. In September 1996, UNU began work at its International Network on Water, Environment and Health (UNU/INWEH). The Government of Canada and Canada's International Development Research Centre agreed to host and provide Can$ 5.25 million over four years to support the Network. The Network integrates international expertise into a programme of education, training, research and technology transfer on major water, environment and human health issues. The programme has several water-related themes: protection and management, wastewater treatment, environmental assessment, eco-toxicology and human health impacts.

15. In June 1997, the UNU Rector and the Minister for Foreign Affairs of Iceland signed an agreement to open the UNU Fisheries Training Programme, which will be based at the Marine Research Institute in Reykjavik. The jointly financed programme is unique in that its annual April to October, hands-on curriculum encompasses the technical, economic and environmental aspects of fishing. Fellows will have to complete a three-part curriculum: 6 weeks of core theory, 12 weeks of specialized training and 6 weeks aboard either a research vessel or a trawler. The rigorous core programme will train fellows about fish policy, monitoring, processing quality management, marketing and environmental protection. The course has a training style similar to the UNU Geothermal Training Programme based in Iceland, which since 1979 has trained more than 200 developing country fellows in the applications of geothermal energy.

16. In October 1997, UNU opened the Global Environmental Information Centre (GEIC), a joint venture between UNU and the Environment Agency of Japan. GEIC was founded on Agenda 21, adopted by the United Nations Conference on Environment and Development at Rio de Janeiro in June 1992, and is a centre for global projects, networking and information on environmental issues. Its work is promoting new levels of cooperation and understanding among nations, key sectors and peoples, to achieve environmentally sustainable development. GEIC is located on the ground floor of the UNU headquarters building and is open daily. Computer terminals and staff are available to assist the public with information access and networking.

University programmes

Environment

17. The UNU environment programme focuses on the interaction between human activities and the natural environment.

18. In 1997 the Global Environment Facility pledged $6.17 million over four years towards the UNU project on people, land management and environmental change. This demonstration

and capacity-building project aims to conserve biological diversity in managed agricultural ecosystems. Its 100 members work in close cooperation with small-scale agricultural farmers and herdsmen. The project's members are documenting and learning from the indigenous ways that these farmers preserve biodiversity on lands that lie at the margins of forests, semi-arid regions, mountains, wetlands and land corridors. These plant-saving strategies can then be used to help other communities where biodiversity is at risk. The project works through locally based clusters that have already been established in several areas: West Africa, East Africa, South-East Asia and Papua New Guinea, as well as the Amazon region.

19. The UNU project on environmental monitoring and analysis in the East Asian region held a symposium on environmental governance and analytical techniques: water pollution and water quality monitoring in February 1997. Representatives from the Environmental Protection Agency of the United States of America, the World Health Organization, Japan's National Institute for Environmental Studies and UNU explained the latest water quality monitoring methods, reviewed new pollution control technologies and discussed the effects that environmental standards and policies have on industries. Also discussed were the 1996 results obtained from measuring pesticides in rice and polychlorinated biphenyls (PCBs) in each participating country's soil.

20. UNU/IAS held two meetings at the UNU Centre to help improve the quality of integrated assessment models and integrate developing country perspectives into them. The first meeting, held in March 1997, comprised the Intergovernmental Panel on Climate Change Asia-Pacific workshop on integrated assessment models. It had three main outcomes: (a) 140 top scholars from around the world exchanged their integrated assessment model research results on climate change; (b) the meeting provided developing countries with the latest scientific and technical information on the subject; and (c) it gave policy makers an in-depth analysis of climate change concerns as they prepared for the third session of the Conference of the Parties under the United Nations Framework Convention on Climate Change, held at Kyoto in December 1997.

21. The second meeting, also held in March 1997, comprised the Tokyo modelling forum on integrated global environmental assessment. This meeting had three main outcomes: researchers were able to compare how different integrated assessment models stabilize carbon dioxide emissions and affect climate change; they made progress in expanding the use of integrated assessment models to developing countries; and they were able to extend integrated assessment models' climate change framework to include more sustainable development-related issues.

22. In 1997, GEIC was asked by the secretariat of the United Nations Framework Convention on Climate Change to prepare a study on the non-governmental organization consultative mechanisms and the Convention. The study that GEIC prepared is based on a review of workshop reports and submissions from and consultations with non-governmental organizations. The report had six main recommendations. The Convention secretariat discussed the recommendations in July 1997 with its participating countries. In December 1997, GEIC served as the main information source at the third session of the Conference at Kyoto and worked to ensure that everyone attending the Conference was kept informed of its progress.

23. During the reporting period, the Zero Emissions Research Initiative held its second and third world congresses on zero emissions: the second took place at Chattanooga, Tennessee, United States in 1996, and the third at Jakarta in 1997.

24. UNU/INWEH completed its first year of operation in 1997. During the year, it worked towards establishing international collaborating offices in several regions around the world. These regional offices will facilitate project development and serve as regional focal points

for training and information dissemination. The international collaborating offices will be small units, with one to three staff members, located within government, university or non-governmental organization institutions in strategically located developing countries. The offices will be formal components of UNU/INWEH, not associated institutions. They will work closely with Governments and organizations within their designated region. The international collaborating offices are expected to be located in Jordan, Mexico and Brazil.

Development

25. Increasing globalization and liberalization, and the countering forces of regionalism and protectionism, have a profound impact on a country's prospects for economic and social development. UNU research sheds new light on these trends as well as on the economic, environmental and human aspects of development.

26. In preparation for the 1998 World Conference on Higher Education, UNU hosted a conference in July 1997 to discuss national strategies and regional cooperation for the twenty-first century. The conference was the joint effort of four parties: UNU; the United Nations Educational, Scientific and Cultural Organization (UNESCO); Japan's Ministry of Education, Science, Sports and Culture; and the Association of Universities of Asia and the Pacific. Its main aim was to strengthen academic cooperation and to improve university education in the region. Similar conferences had already been held in Africa, the Arab States, Europe, and Latin America and the Caribbean.

27. The most important outcome of the conference was a declaration produced and agreed to by the Asian Pacific countries that are members of UNESCO. The declaration outlines what those countries want their universities to accomplish in the future and how they should go about doing it. The declaration's action plan is divided into four main areas: relevance, quality, management and finance and cooperation. All of these problems are said to require urgent action.

28. UNU/INTECH held a workshop in November 1996 on foreign direct investment, technology transfer and export-orientation in developing countries. The workshop was held in the Netherlands and gave scholars worldwide an opportunity to compare research results.

29. Researchers first presented papers analysing trends in foreign direct investment outflows from Germany, Japan, Sweden and the United States, highlighting implications for developing country industrialization. Then a presentation was made on three quantitative studies on multinationals and development. The workshop ended with two panel discussions: one on recent investment initiatives of the Organization for Economic Cooperation and Development and the World Trade Organization, and the other on foreign direct investment in Asia.

30. UNU/INTECH researchers are working on several technology transfer projects. They are investigating factors that improve a country's attractiveness as a recipient of export-oriented investment from American and Japanese multinational corporations. Their preliminary analysis suggests that multinational corporations prefer to locate their research and development activities in countries able to offer them large markets, technological resources and sufficient infrastructure, while the strength of a country's intellectual property regime does not appear to be a significant factor.

31. UNU/INRA has a capacity-building project entitled "Ad hoc Committee Meeting on Women in Natural Resource Conservation and Management for Sustainable Development". As part of this project, four African development experts were asked to draw up guidelines that would help UNU/INRA incorporate the ideas of women into natural resource

management. The final report of the four-woman team suggested that UNU/INRA do the following:

(a) Strengthen African institutions that are involved with gender research issues;

(b) Focus attention on policy-oriented research that incorporates gender perspectives;

(c) Monitor the resulting policies to ensure that gender concerns are integrated into them;

(d) Ensure that gender-sensitive researchers are involved in UNU/INRA projects.

32. UNU/WIDER has a project on short-term capital movements and balance of payments crises. The project has been investigating the controversial issue of regulating short-term capital flows. The capital flows can upset a country's economy when they cause its exchange and interest rates to behave in a volatile way. The Mexican and Thai economic crises are examples of this type of capital flow.

33. UNU/WIDER has produced a book on this research entitled *Short-Term Capital Flows and Balance of Payments Crises*. The book includes a chapter on the recent South-East Asian crisis, which identifies the policy mistakes made in financial liberalization that led to the crisis, and discusses the role of contagion that had an impact on other countries. It also suggests measures that countries can implement to reduce the negative effects of financial globalization. Several of the studies contained in the book have been published in the UNU/WIDER series *Research for Action*. This project has brought together experts from the World Bank, the International Monetary Fund (IMF), and central banks and universities from several countries.

34. UNU/IAS held an event in October 1996 that brought Asian city planners and scholars together to find solutions to the region's pressing urban problems. In cooperation with the UNESCO programme on management of social transformation, participants from 10 Asian cities (Bangkok; Bombay, India; Hong Kong, China; Jakarta; Kanazawa, Japan; Manila; Seoul; Shanghai, China; Singapore; and Tokyo) attended the workshops in Hong Kong, China, and Tokyo on globalization and mega-city development in Pacific Asia. The workshops had three important objectives: (a) to analyse globalization's impact on functional changes occurring in the region's cities; (b) to generate more effective mega-city management and policy options; and (c) to create stronger links between urban planners and scholars.

Peace and governance

35. During the late 1980s and the early 1990s, the international community took an activist approach towards crises and conflicts. That approach was successful in a few cases, but for the most part it ended in disappointment. Failures occurred because the problem-solving tools available to the international community were not efficient, and firm commitment from the world's most powerful countries was often not forthcoming. By the mid-1990s, extreme caution had become the prevailing attitude in international politics.

36. The UNU peace and governance programme has three focuses: studying past events; conceptualizing the present; and planning for the future.

37. UNU held its second annual symposium on the United Nations system in the twenty-first century in November 1996. The symposium gave researchers working on the project a chance publicly to present findings for that year. Twenty-seven researchers from academic institutions and international and national research agencies worldwide presented their results at the symposium's sessions on state and sovereignty, global citizenship, regional

institutions, market forces and international organizations. A similar event was held in November 1997, this time focusing on the environment.

38. UNU held an international symposium on women and mainstreaming at its Tokyo headquarters in June 1996. The symposium had two purposes: one was to have panellists discuss in depth how social policies affect gender, the other was to facilitate an information exchange between the panellists and the audience. The six-hour symposium was divided into five sessions: a research agenda for women – mainstreaming women's issues; gender in politics; gender in the economy; gender in society; and women and human rights. The symposium was one of the first of its kind to be held in Japan, and many Japanese politicians, university professors, United Nations delegates and media personnel were able to attend and exchange ideas. The organizers hope that symposiums such as this will encourage more people to make use of the worldwide gender research and dissemination network of UNU.

39. UNU/ILA launched its first leadership programme in June 1997. The 32-day programme, held in Jordan, gathered 163 would-be leaders from 63 countries to teach them about the art and science of leadership. The future leaders participating in the programme attended an average of three lectures each day from the high-level speakers. The programme also included a six-day study visit to Israel, Palestine and Egypt.

Science and technology

40. The development of science and technology is vital in order for the world to sustain increasing numbers of people and their activities. Science and technology hold answers to questions of how to make human actions more efficient, friendlier to the environment and more conducive to happiness. The work of UNU in this area has two facets: the study of the diffusion of scientific and technological innovations, and basic and applied scientific research.

41. In October 1996, UNU/IAS launched its universal networking language (UNL) project. UNL is an Internet plug-in that will facilitate communication between peoples with different languages. Along with its companion software, it will allow anyone with Internet access to "enconvert" text from a language of a State Member of the United Nations into UNL, or "deconvert" text from UNL into another language.

42. The project will take 10 years to complete. The first three years are being devoted to creating conversion modules for Arabic, Chinese, English, French, German, Hindi, Indonesian, Italian, Japanese, Portuguese, Russian and Spanish. The remaining Member State language modules will be developed in the following years. UNU/IAS is creating the prototype software, while international research institutes and industry partners will develop individual modules for their native languages.

43. UNU/IIST holds numerous training courses every year. In 1996 these included one in Argentina on formal methods in software development. This course taught Latin American students how to develop and apply mathematical methods when writing computer software.

44. The UNU/IIST course was divided into two parts. The first part was on rigorous approaches to industrial software development, showing ways of using mathematical techniques to develop complicated software. The second part was on duration calculus, which teaches a way of incorporating real-time into dynamic systems, such as those used in railway crossings or water-level monitoring controls. Duration calculus is a field in which UNU/IIST has become an acknowledged leader.

45. The course was prepared in 1992 by one of the senior research fellows of UNU/IIST and has since been taught in more than 14 countries. It aims at strengthening developing

countries' knowledge of advanced computer software and reducing their dependency on innovations from industrialized countries.

Dissemination of research findings

46. The University's dissemination activities provide academics and policy makers with UNU research results. Dissemination also increases the international visibility of UNU and promotes its work. These efforts include publicizing conferences, promoting new publications and disseminating information electronically.

47. During the reporting period, the UNU Press sold some 23,000 books. These sales resulted in revenue of almost $400,000. The Press also gave about 2,000 free copies of books to libraries and other institutions located in developing countries.

48. The UNU Press published eight new books in 1996 and another nine in 1997. An additional 12 manuscripts are now being readied for production and will be published in 1998. The UNU Press also produced nine smaller scholarly publications, such as university lectures and miscellaneous reports, and a new catalogue of its academic publications.

49. In order to get UNU research results disseminated better within developing countries, the UNU Press has been promoting the reprinting of its books by Third World publishers. During 1997, less expensive reprint editions of three UNU Press titles were published for South Asian and countries members of the Association of South-East Asian Nations: *Emerging World Cities in Pacific Asia*, *Women and Kinship*, and *Nepal: A Himalayan Kingdom in Transition*.

50. The UNU Press' sales and marketing efforts during the reporting period included participation in three international book fairs: Tokyo, London and Frankfurt. UNU Press books were also promoted at book exhibitions in Denmark, Japan, Switzerland, the United States and Zimbabwe.

51. In 1997, UNU became a member of the CD-ROM humanity project. The Belgium-based project is scanning books onto CD-ROMs and distributing the CD-ROMs either free or at low cost to developing countries. So far, all of the food and nutrition publications of UNU have been scanned, and scanning of the University's books on sustainable development is almost complete. Joining this project benefits UNU in two important ways. First, more and more people will now have access to the University's work, without UNU having to pay the high shipping costs to get it to them. And second, the high-tech equipment used to copy the books can also provide the University with scanned versions of its own publications, which are being uploaded directly onto the UNU Internet home page.

52. The UNU was involved with the publication of several journals during the reporting period. The journals were:

- *Food and Nutrition Bulletin*
- *Journal of Food Composition and Analysis*
- *Global Environmental Change – Human and Policy Dimensions*
- *Mountain Research and Development*
- *Global Governance: A Review of Multilateralism and International Organizations*

Postgraduate training

53. The UNU postgraduate education programme has three purposes: (a) to strengthen developing countries' academic institutions, enabling them to conduct high-quality research

and train future scholars; (b) to help alleviate the intellectual isolation academics from developing countries often face; and (c) to strengthen the UNU global outreach.

54. About 1,600 fellows have completed UNU training and fellowship programmes since they began in 1976. During the biennium 1996–1997, 168 UNU fellows finished their studies, while another 200 began training.

55. UNU awarded the following fellowships during 1997:

- Fifteen for studies in geothermal energy at the National Energy Authority in Iceland
- Eight for renewable energy systems at the Institute of Technology in India
- Seven in remote sensing at the Instituto Nacional de Pesquisas Espaciais in Brazil
- Six for science and technology policy at the Universidade Federal do Para in Brazil
- Two for science and technology at the Universidad Estadual de Campinas in Brazil
- Eighteen for biotechnology at various Latin American institutions
- Five in food science and technology at the National Food Research Institute in Japan
- One for food and nutrition at the Central Food Technology Research Institute in India
- Three for the production and use of food composition databases at the University of the Western Cape in South Africa
- Three for applied human nutrition at the University of Nairobi in Kenya
- Three for community-based planning and management at the Nutrition Center of the Philippines

56. UNU also conducts one to six-week training courses in various parts of the world in subjects ranging from natural hazards reduction, biotechnology and computer science to environmentally sustainable development, multilateral diplomacy, environmental negotiation and duration calculus, to name a few examples.

57. During the biennium 1996–1997, 10 UNU-Kirin fellows were awarded certificates for completing one year of training at the National Food Research Institute of Japan. The main purpose of the training programme is to build the capacity of developing country food research institutions. The fellows are taught the latest techniques in food science to teach to their fellow countrymen when they return home. The annual contribution by the Kirin Brewery Company allows UNU to provide five developing country fellows annually with one-year research and training opportunities in food science and technology at the National Food Research Institute and with support for their continued research efforts when they return home.

58. UNU held its annual global seminar series in both 1996 and 1997 at two locations in Japan: Kanagawa Prefecture's Shonan Village in September and Kobe in October. These seminars are designed to enhance international awareness among Japanese students through interaction with the UNU global network of experts. A total of approximately 200 Japanese and foreign students participated. The seminars are supported by the Japan Foundation for the United Nations University and are sponsored by several corporations.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has audited the operations of the United Nations University (UNU) at its headquarters at Tokyo. The Board has also validated the financial statements of the United Nations for the period from 1 January 1996 to 31 December 1997.

The Board's main findings are as follows:

(a) Liabilities for end-of-service benefits were neither provided for fully nor disclosed in the notes to the financial statements;

(b) Pledges aggregating $6.04 million have remained unpaid from two countries for over a decade;

(c) There was a steady decline in the amount of pledges, from $31 million in 1992–1993 to $21 million in 1996–1997;

(d) The Administration has not been able to improve the representation of the consultants and experts from developing countries in line with the charter of the University;

(e) The Administration has not been able to generate sufficient income through utilization of the available accommodation in the University's building at the headquarters to match the expenditure on its operation and maintenance.

The key recommendations are that the Administration:

(a) Intensify its efforts to attract the desired level of income;

(b) Establish a time-bound strategy and action plan to improve the representation of consultants and experts from developing countries, in line with the charter of the University;

(c) Review the optimum staffing requirement with reference to the activities of the University and make efforts to fill the vacancies;

(d) Continue to explore ways to increase income through utilization of the UNU headquarters building and to examine ways of reducing the expenditure on the operation and maintenance of the building.

A list of the Board's main recommendations is included in paragraph 9 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations University (UNU) for the period from 1 January 1996 to 31 December 1997 in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article IX of the charter of UNU. The audit has been conducted in conformity with article XII of the Financial

Regulations of the United Nations and the annex thereto, and the common auditing standards of the panel of external auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1996 to 31 December 1997 had been incurred for the purposes approved by the General Assembly; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNU presented fairly the financial position at 31 December 1997. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements. The audit was carried out at the headquarters of the University at Tokyo.

3. In addition to the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations. The reviews concerned the efficiency of the financial procedures, the internal financial controls, human resources management and, in general, the administration and management of UNU.

4. The Board continued its practice of reporting the results of specific audits through management letters containing detailed observations and recommendations to the Administration. This practice helped in maintaining the ongoing dialogue with the Administration on audit issues.

5. A summary of main recommendations is contained in paragraph 9. The detailed findings of the audit are reported in paragraphs 10 to 37.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in this report were communicated to the Administration, which confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of financial issues and management issues, respectively.

1. Previous recommendations not fully implemented

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations that have not been fully implemented by the University. In both cases the recommendations were made by the Board in its reports for the biennium 1992–1993 and repeated in 1994–1995:

(a) UNU should ensure equitable representation of the consultants, experts and institutions from developing countries in the consultancy agreements entered into by the University;

(b) UNU should generate income from the UNU headquarters building, including specific contributions to match the expenditure on maintenance and operation.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board has reviewed the measures taken by the Administration to implement the recommendations made by the Board in its report for the period ended 31 December 1995. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations

9. The Board recommends that the Administration:

(a) Either make a full provision for liabilities for end-of-service benefits, post-retirement benefits and annual leave or make an appropriate disclosure in the notes to the financial statements (para. 12);

(b) Intensify its efforts to attract the desired level of income (para. 19);

(c) Establish a time-bound strategy and action plan to improve the representation of consultants and experts from developing countries, in line with the charter of the University (para. 26);

(d) Reassess the need for the two long-outstanding consultancy assignments and, if appropriate, take action to recover the advances paid (para. 28);

(e) Review the optimum staffing requirement with reference to the activities of the University and make efforts to fill the vacancies (para. 30);

(f) Continue to explore ways to increase income through utilization of the UNU headquarters building and examine ways of reducing the expenditure on the operation and maintenance of the building (para. 36).

B. Financial issues

1. Financial statements

United Nations System Accounting Standards

10. The Board assessed the extent to which the UNU financial statements for the biennium 1996–1997 conform to the United Nations System Accounting Standards. The review indicated that the presentation of the financial statements is generally consistent with the standards except for omission to provide for liabilities for end-of-service benefits.

Liabilities on account of end-of-service benefits

11. The Board noted that, with regard to end-of-service benefits, post retirement benefits and annual leave, UNU had not fully provided for these liabilities or disclosed them in the notes to accounts, contrary to the provisions of the United Nations System Accounting Standards. The Administration stated that it had only included the obligations for such benefits for cases where separation was confirmed.

12. **The Board recommends that the University either fully provide for these liabilities in the financial statements or make an appropriate disclosure in the notes to the financial statements.**

13. The Administration informed the Board that it would make the appropriate disclosure in the notes to the financial statements for the biennium 1998–1999.

Unpaid pledges

14. The Board noted that out of the total unpaid pledges of $10.65 million outstanding from seven countries at 31 December 1997, excluding the unpaid pledges for future years, two pledges totalling $6.04 million had remained unpaid for over 10 years. In one case $3 million of a pledge to the Endowment Fund remained unpaid for 22 years and in the second case a pledge of $3.04 million remained unpaid for 11 years.

15. The Administration stated that it would continue to maintain contact with the Governments concerned for payment of the outstanding amounts and would consider write-off action as appropriate.

16. It added that it would include a provision for the long-outstanding unpaid pledges in the financial statements for the biennium 1998–1999 in line with the United Nations System Accounting Standards.

2. Cash management

Declining level of pledges

17. The Board analysed the income from pledges during the last four bienniums; the position is indicated in the table below:

Status of pledges during the bienniums 1990–1991 to 1996–1997
(millions of United States dollars)

Biennium	*Unpaid pledges at the beginning of the biennium*	*Amounts pledged for the biennium*	*Pledges collected during the biennium*	*Percentage of pledges collected to total pledges collectible*	*Unpaid pledges at the end of the biennium[a]*
1990–1991	12 96	12 90	14 74	57	11 93
1992–1993	11 93	31 09	26 79	62	16 23
1994–1995	16 23	25 39	27 11	65	14 50
1996–1997	14 50	21 34	25 19	70	10 65

[a] Does not include unpaid pledges meant for future years.

18. While the Board appreciates that the percentage of collection to the total amount collectible has improved over the years, the total amount of the pledges has declined steadily from $31.09 million in 1992–1993 to $21.34 million in 1996–1997. This has led to the decision of the University Council to defer reinvestment of the interest income earned on investment of the Endowment Fund both in 1994–1995 and 1996–1997. The Administration stated that it was seeking to improve its "revenue enhancing" capacity by strengthening academic staffing and by developing a strategic plan for the period 1999–2002 that would include strategies for assuring the quality of UNU academic work as well as for mobilizing additional resources.

19. **The Board recommends that the Administration intensify its efforts to attract the desired level of income.**

3. Write-off of losses of cash, receivables and property

20. The Administration informed the Board that there was no case of write-off of losses of cash, receivables and property during the biennium.

4. Ex gratia payments

21. The Administration reported that no ex gratia payments were made during the biennium 1996–1997.

C. Management issues

1. Human resources management

Agreements with consultants and institutions

22. The Board has consistently recommended in its reports for the bienniums ended 31 December 1991, 1993 and 1995 the need to make more representative the selection of the consultants, experts and institutions for special service agreements, personnel service agreements and institutional consultancy agreements with a view to fulfilling the objective set forth in the charter of the University to ensure equitable participation of scholars and scientists from the developing countries. The Administration states that it will continue to strive for achieving greater participation of the scholars and institutions from developing countries.

23. The Board noted that while there had been some improvement in the representation of developing countries in the institutional consultancy agreements, where it has increased from 31 per cent in the previous biennium to 54 per cent in 1996–1997, there was no improvement in the position of the special service agreements and personnel service agreements. Taking into account the contracts at April 1998, the representation of the developing countries remained at 27 per cent for special service agreements and 29 per cent for personnel service agreements against 24 and 34 per cent, respectively, during the previous biennium. The Board also noted that the majority of the consultants under special service agreements continued to be nationals of only a few countries: 3 developed countries accounted for 46 per cent of the total number of 97 special service agreements from 33 countries.

24. In a similar context, the Board noted that of the 28 scholars who participated in the symposium on peace and security – twenty-first century, 23 were from developed countries. The Board considers that participation in the symposium was far from being global. The Administration agreed that it was not appropriate to have so many scholars in one project from any one country and so few from other regions, particularly from developing countries.

25. The Administration stated that it made efforts to ensure general geographical and gender balance in the selection of consultants and participants in the University's activities taking into account their nature and the resources available. However, at the UNU Centre and the research and training centres that were located in industrialized countries, it would be more efficient and cost effective to engage a consultant or institution locally.

26. **The Board, however, reiterates its recommendation that in line with its charter, the University establish a time-bound strategy and action plan to improve the representation of consultants and experts from developing countries in agreements with consultants and experts.**

Delay in completion of consultancy work

27. The Board found two cases of consultancy work where completion had been significantly delayed. The first such agreement was signed in February 1991 for a total value of $38,700, for the preparation of a volume for use at the United Nations Congress on Environment and Development scheduled to be held in 1992. Although this deadline had long since passed and the consultant had been paid $15,000, the Board noted that the work still remained to be delivered. In the second case the agreement was signed in November 1991 for a total value of $45,470, and the work was intended to be delivered by 31 December

1992. Although the consultant had been paid $10,000, the work had not been completed as at April 1998.

28. **The Board recommends that the University reassess the need for these long outstanding assignments and, if appropriate, take action to recover the advances paid.**

Personnel

29. The Board noted that in the headquarters of the institutes of the University the vacancies with reference to the established posts during 1996–1997 ranged between 17 per cent of the established posts in the UNU International Institute for Software Technology and 61 per cent of the established posts in the UNU Institute of Advanced Studies. Some of the posts had been abolished or reconfigured for the biennium 1998–1999 in view of the continuing financial constraints. The Administration informed the Board that three posts had been filled and two were likely to be filled later in the year.

30. **The Board recommends that the Administration review the optimum staffing requirement with reference to the activities of the University and make efforts to fill the vacancies with a view to ensuring that the objectives of the University are not adversely affected by vacant posts.**

2. Academic activities

31. The Board noted that the UNU Council, at its forty-third session held in December 1996, had pointed out certain deficiencies relating to too large a span of the activities of the academic division leading to a blurring of the focus in its activities, inadequate project selection criteria and lack of connection between the individual research, training fellowship and dissemination activities inasmuch as the individual projects were carried out in discrete project units without a sense of an overall programme whole.

32. The Board further noted that the Administration had taken measures to address these shortcomings by reducing the number of projects in 1997 to refocus the academic activities, besides adopting a more systematic approach in identification and selection of projects including examination of the feasibility of putting out for tender specific UNU projects in order to revitalize and expand the existing UNU network. The Board was informed by the Administration that it was taking a number of other steps in compliance with the decision of the Council.

33. The Board will monitor developments in this important area.

3. United Nations University headquarters building

34. In November 1995 the Advisory Committee on Administrative and Budgetary Questions urged that the income from the UNU headquarters building match the expenditure on its maintenance and operation. The Board noted, however, that the income from the building had decreased from $2.8 million to $2.31 million during the previous biennium; the expenditure on its maintenance during 1996–1997 was $4.13 million.

35. The Administration stated that of the 660 square metres on the ground floor, two spaces had been used for a joint project with the Environment Agency of Japan, for which UNU would receive a contribution in 1999. Another two spaces had been earmarked for a bookshop and a restaurant, respectively, but the University had not been able to conclude an agreement with suitable tenants for use of those spaces. The Administration's policy was to bring the net cost of the building to zero by optimizing the use of space, obtaining additional income from non-UNU occupants and users of conference facilities and reducing expenditures for maintenance.

36. The Board notes with concern that although the building was occupied in July 1992 the University has not been able to meet its maintenance costs from the income from the building. **The Board recommends that the Administration continue to explore ways to increase income through utilization of the UNU headquarters building and examine ways of reducing the expenditure on the operation and maintenance of the building.**

4. Cases of fraud and presumptive fraud

37. The Administration informed the Board that no case of fraud or presumptive fraud came to its notice in the biennium 1996–1997.

D. Acknowledgement

38. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to the auditors by the Rector and his officers and staff.

(*Signed*) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(*Signed*) Osei Tutu **Prempeh**
Auditor-General of Ghana

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

Annex

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1995[a]

Recommendations 10 (a), (b) and (c)

1. A more systematic and transparent system should be established at UNU headquarters and in its regional institutes for selection, appraisal and approval of projects. A sufficiently broad-based academic advisory committee should be established in UNU/WIDER to assist in selection and review of research projects.

2. Progress of work relating to research projects, including specific programme contribution projects, should be monitored more closely to avoid delays in implementation and reporting requirements and to ensure the quality of the end products.

3. Formal and institutional procedures should be established at UNU headquarters and its regional institutes for mid-term and *ex post facto* evaluations of projects, including quantitative analysis of timeliness, budgetary control and achievement of targeted outputs.

Measures taken by the Administration

4. A standard project document format has been developed by UNU headquarters for use by the headquarters and the research and training centres. Projects reviewed at the conference of directors of the UNU research and training centres and programmes have been presented in this format. The review and approval process for UNU projects is being studied with a view to implementing a more formal transparent system for the approval of the projects. A standard reporting format for the annual reports of the research and training centres was presented to the Council at its forty-third session in December 1996. Comments/advice received from the Council have been incorporated in the annual reports submitted at its forty-fourth session in December 1997.

Comments of the Board

5. The Board will review the implementation of the recommendation in its future audits. There has been no response from the Administration about the recommendation regarding establishment of a broad-based academic advisory committee in UNU/WIDER.

Recommendation 10 (d)

6. Long-term training strategies should be developed by UNU and its institutes to provide appropriate training to young scholars from developing countries.

Measures taken by the Administration

7. An assessment report containing an internal review of the training and fellowship activities of UNU covering the period from 1976 to the end of 1995 was submitted to the UNU Council at its forty-third session in December 1996, which can be considered as a first step towards the development of a long term strategy for UNU training activities.

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[a] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5* (A/51/5), vol. IV, chap. II, para. 10

Comments of the Board

8. The Board urges the Administration to build up on its emerging capacity-building strategy included in the assessment report, to prepare a detailed strategy paper and to implement it expeditiously.

Recommendation 10 (e)

9. Effective measures should be taken to attract a large number of researchers and consultants from developing countries, in line with the charter of UNU, by reversing the existing trend of engaging researchers and consultants predominantly from developed countries.

Measures taken by the Administration

10. The University continues to stress the need for appropriate geographical and gender balance in the selection of consultants and participants in its academic activities. During the biennium 1996–1997 the contractual arrangements under institutional consultancy agreements made with institutions located in developing countries accounted for 54 per cent, which was increased from 31 per cent during the biennium 1994–1995.

Comments of the Board

11. As brought out in the present report of the Board, while there has been improvement in the number of institutional consultancy agreements from developing countries, there has been no improvement in relation to the special service agreements and professional service agreements, in which the representation of developing countries continued to be low. The Board reiterates that the Administration should adopt a result-oriented approach to achieve a proper representation of the consultants and researchers from developing countries.

Recommendation 10 (f)

12. Print requirements of publications should be periodically reviewed to avoid overstocking and wastage. Methods should be established to dispose of the large stocks of earlier publications either by offering discounts or through free distribution. Timeliness of publications should also be ensured.

Measures taken by the Administration

13. At its forty-fourth session, in December 1997, the UNU Council endorsed the revised report of the review of UNU publishing activities and recommended to the Rector that the establishment of a dissemination committee be complemented by creation of an editorial board to ensure efficiency of publishing services with regard to both policy and quality control. With regard to publication held in stock, a bargain basement sales section has been introduced on the UNU home page on the Internet offering 70 to 80 per cent discount and a book aid project, in collaboration with an agency, would donate 11,000 books to the universities and research institutions in China.

Comments of the Board

14. The Board, while appreciating the actions taken by the University, recommends a more aggressive strategy to dispose of the 91,000 copies lying in the stock of the University in a time-bound manner.

Recommendation 10 (g)

15. The systems and procedures for budget estimation and budgetary control should be reviewed to ensure that financial allotments and actual expenditures are closely related to appropriations.

Measures taken by the Administration

16. Efforts have been made to strengthen the existing procedures for budget formulation, particularly for the programme budget for the biennium 1998–1999.

Comments of the Board

17. The Board will review the effectiveness of the measures taken by the Administration.

Recommendation 10 (h)

18. Annual procurement plans should be prepared in advance to ensure competitive bidding for goods and services. Printing contracts should be awarded after ensuring adequate competitiveness.

Measures taken by the Administration

19. Efforts have been made to ensure competitive bids for the purchase of equipment and services. UNU is currently identifying printing companies located in the region to ensure competitiveness.

Comments of the Board

20. The Board expects that the measures taken by the Administration will be institutionalized.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to IV and the supporting notes of the United Nations University for the financial period ended 31 December 1997. These financial statements are the responsibility of the Rector. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit included examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Rector as well as evaluating the presentation of the overall financial statement. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all respects, the financial position at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with stated accounting policies of UNU set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of UNU which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long form report on our audit of the financial statements of the United Nations University.

(*Signed*) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(*Signed*) Osei Tutu **Prempeh**
Auditor-General of Ghana

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

Chapter IV

Certification of the financial statements

8 July 1998

I certify that the appended financial statements of the United Nations University, numbered I to IV, are correct.

(*Signed*) Jay **Karia**
for Jean-Pierre **Halbwachs**
Assistant Secretary-General, Controller

Chapter V

Financial statements for the biennium 1996–1997 ended 31 December 1997

Statement I

Income and expenditure and changes in reserves and fund balances for the biennium 1996–1997 ended 31 December 1997

(Thousands of United States dollars)

	UNU/HQ Operating Fund	UNU/WIDER Operating Fund	UNU/INTECH Operating Fund	UNU/IIST Operating Fund	UNU/INRA Operating Fund	UNU/BIOLAC Operating Fund	UNU/IAS Operating Fund
Income							
Voluntary Contributions	15,805 a/	383	3,233	22	-	23	10,712
Interest income	975	166	104	-	-	-	-
Other/Miscellaneous income							
Sales income and royalties from publications	465	31	2	-	-	-	-
Miscellaneous income	90	13	24	4	10	0	4
TOTAL INCOME	17,335	593	3,363	26	10	23	10,716
Expenditure							
Staff and other personnel costs	15,031	2,577	2,641	2,223	551	-	2,405
Travel	1,171	116	103	258	100	-	204
Contractual services	1,005	204	112	132	28	9	120
Operating expenses	2,502	586	774	184	48	-	772
Acquisitions	715	207	243	359	81	-	418
UNU HQ building	4,129						
Research and training networks, and dissemination	9,496	2,137	1,970	1,038	296	777	6,270
TOTAL EXPENDITURE	34,049	5,827	5,843	4,194	1,104	786	10,189
Excess (shortfall) of income over expenditure	(16,714)	(5,234)	(2,480)	(4,168)	(1,094)	(763)	527
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(16,714)	(5,234)	(2,480)	(4,168)	(1,094)	(763)	527
Savings on, or cancellation of, prior periods' obligations	997	459	103	138	111	71	145
Transfers (to) from other funds	18,609	5,157	2,271	4,561	597	288	-
Other adjustments to reserves and fund balances	56	-	-	-	-	-	-
RESERVES AND FUND BALANCES, BEGINNING OF PERIOD	16,879	4,331	2,064	619	3,578	406	1,594
RESERVES AND FUND BALANCES, END OF PERIOD	19,827	4,713	1,958	1,150	3,192	2	2,266

	Total Operating Fund		Total Endowment Fund		Grand Total	
	1997	1995	1997	1995	1997	1995
Income						
Voluntary contributions	30,178 [a]	23,673	411	10,422	30,589 [b]	34,095
Interest income	1,245	1,232	31,483	31,876	32,728	33,108
Other/Miscellaneous income						
Sales income and royalties from publications	498	518	-	-	498	518
Miscellaneous income	145	1,702	20,868 [c]	26,763	21,013	28,465
TOTAL INCOME	32,066	27,125	52,762	69,061	84,828	96,186
Expenditure						
Staff and other personnel costs	25,428	26,939	-	-	25,428	26,939
Travel	1,952	1,922	-	-	1,952	1,922
Contractual services	1,610	1,697	-	-	1,610	1,697
Operating expenses	4,866 [d]	2,627	25,840 [e]	-	30,706	2,627
Acquisitions	2,023	1,548	-	-	2,023	1,548
UNU HQ building	4,129	4,792			4,129	4,792
Research and training networks and dissemination	21,984	17,080	-	-	21,984	17,080
TOTAL EXPENDITURE	61,992	56,605	25,840	-	87,832	56,605
Excess (shortfall) of income over expenditure	(29,926)	(29,480)	26,922	69,061	(3,004)	39,581
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(29,926)	(29,480)	26,922	69,061	(3,004)	39,581
Savings on, or cancellation of, prior periods' obligations	2,024	1,873	-	-	2,024	1,873
Transfers (to) from other funds	31,483	31,876	(31,483)	(31,876)	-	-
Other adjustments to reserves and fund balance	56	(3,081)	-	3,081	56	-
RESERVES AND FUND BALANCES, BEGINNING OF PERIOD	29,471	28,283	283,031	242,765	312,502	271,048
RESERVES AND FUND BALANCES, END OF PERIOD	33,108	29,471	278,470	283,031	311,578	312,502

[a] Includes contributions of $2,315,778 for the UNU headquarters building.

[b] Represents voluntary contributions from Governments of $21,654,348 and other voluntary contributions in the amount of $8,934,787.

[c] Represents a gain on sale of securities.

[d] Includes loss on exchange in the amount of $2,196,585.

[e] Represents a loss on exchange.

The accompanying notes are an integral part of the financial statements.

Statement II

Assets, liabilities, reserves and fund balances at 31 December 1997

(Thousands of United States dollars)

	UNU/HQ Operating Fund	UNU/WIDER Operating Fund	UNU/INTECH Operating Fund	UNU/IIST Operating Fund	UNU/INRA Operating Fund	UNU/BIOLAC Operating Fund	UNU/IAS Operating Fund
Assets							
Cash and term deposits	25,214	2,062	2,437	664	-	-	-
Investments	-	-	-	-	3,044	-	-
Voluntary contributions from governments receivable	-	4,175	798	1,099	840	364	-
Inter-fund balances receivable	2,481	40	22	32	9	-	3,359
Other accounts receivable	217	9	-	12	-	-	-
Other assets							
TOTAL ASSETS	27,912	6,286	3,257	1,807	3,893	364	3,359
Liabilities							
Unliquidated obligations	2,926	1,018	949	229	193	67	1,092
Inter-fund balances payable	371	-	-	-	-	-	-
Other accounts payable	4,788	555	350	428	508	295	1
Other liabilities	-	-	-	-	-	-	-
TOTAL LIABILITIES	8,085	1,573	1,299	657	701	362	1,093
Reserves and fund balances							
Fund principal	-	-	-	-	-	-	-
Authorized retained surplus	716	851	317	-	-	-	-
Cumulative surplus (deficit)	15,806	3,772	1,502	1,148	3,036	(16)	1,734
Balances related to projects funded by donors	3,305	90	139	2	156	18	532
TOTAL RESERVES AND FUND BALANCES	19,827	4,713	1,958	1,150	3,192	2	2,266
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	27,912	6,286	3,257	1,807	3,893	364	3,359

	Total Operating Fund		Total Endowment Fund		Grand Total	
	1997	1995	1997	1995	1997	1995
Assets						
Cash and term deposits	30,377 a/	20,566	36,107 b/	45,818	66,484	66,384
Investments	-	-	234,747 c/	233,128	234,747	233,128
Voluntary contributions from governments receivable	3,044	3,094	7,860	11,809	10,904	14,903
Inter-fund balances receivable	7,276	12,004	563	-	- d/	-
Other accounts receivable	5,943	4,447	6,911	4,630	12,854	9,077
Other assets	238	273	-	-	238	273
TOTAL ASSETS	46,878	40,384	286,188	295,385	325,227 d/	323,765
Liabilities						
Unliquidated obligations	6,474	5,759	-	-	6,474	5,759
Inter-fund balances payable	371	50	7,468	11,954	- d/	-
Other accounts payable	6,925	5,104	-	-	6,925	5,104
Other liabilities	-	-	250	400	250	400
TOTAL LIABILITIES	13,770	10,913	7,718	12,354	13,649 d/	11,263
Reserves and fund balances						
Fund principal	-	-	278,470	283,031	278,470	283,031
Authorized retained surplus	1,884	1,884	-	-	1,884	1,884
Cumulative surplus (deficit)	26,982	23,110	-	-	26,982	23,110
Balances related to projects funded by donors	4,240	4,477	-	-	4,240	4,477
TOTAL RESERVES AND FUND BALANCES	33,108	29,471	278,470	283,031	311,578	312,502
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	46,878	40,384	286,188	295,385	325,227	323,765

[a] Includes interest bearing bank deposits of $28,971,387

[b] Represents investments in cash and deposits managed by the United Nations Investment Management Service, which are interest bearing bank deposits of $36,107,254

[c] Comprises investments in bonds and equities managed by the United Nations Investment Management Service

[d] Net of adjustment for elimination of interfund balances

The accompanying notes are an integral part of the financial statements

Schedule 2.1

Combined status of voluntary contributions from Governments at 31 December 1997

(Thousands Of United States dollars)

Operating Funds	Unpaid pledges as at 1 January 1996	Add: Pledges for 1996-1997 and adjustments	Add: Pledges for future years	Less: Collection during 96-97	Add: Gain (Loss) on exchange	Unpaid pledges as at 31 December 1997
UNU/Headquarters						
Barbados	-	2	-	2	-	-
Canada	-	854	-	852	(2)	-
Greece	-	84	-	84	-	-
Iceland	-	46	-	46	-	-
Japan	-	9,346	-	9,346	-	-
Jordan	-	500	-	500	-	-
Netherlands	-	13	-	13	-	-
Norway	-	50	-	50	-	-
Spain	-	79	-	79	-	-
Subtotal	-	10,974	-	10,972	(2)	-
UNU/WIDER						
Finland	-	172	-	172	-	-
Sweden	-	136	-	136	-	-
Subtotal	-	308	-	308	-	-
UNU/INTECH						
Netherlands	-	2,283	-	2,283	-	-
Subtotal	-	2,283	-	2,283	-	-
UNU/IIST						
Canada	-	14	-	14	-	-
Subtotal	-	14	-	14	-	-
UNU/INRA						
Nigeria	50	-	-	53	3	-
France	3,044	-	-	-	-	3,044
Subtotal	3,094	-	-	53	3	3,044
UNU/BIOLAC						
Canada	-	23	-	23	-	-
Subtotal	-	23	-	23	-	-
UNU/IAS						
Finland	-	21	-	21		
Japan	-	7,618	-	7,618	-	-
Subtotal	-	7,639	-	7,639	-	-
TOTAL	3,094	21,241	-	21,292	1	3,044

Endowment Fund	Unpaid pledges as at 1 January 1996	Add: Pledges for 1996-1997 and adjustments	Add: Pledges for future years	Less: Collection during 96-97	Add: Gain (Loss) on exchange	Unpaid pledges as at 31 December 1997
Austria	-	261	-	261	-	-
China	500	-	-	500	-	-
Ghana	3,750	-	-	-	-	3,750
India	-	150	250	75	-	325
Macau	3,377	-	-	3,374	-	3
United Republic of Tanzania	20	-	-	-	-	20
Venezuela	3,003	-	-	-	-	3,003
Zambia	759	-	-	-	-	759
TOTAL	11,409	411	250	4,210	-	7,860
GRAND TOTAL	14,503 a/	21,652	250	25,502	!	10,904

a/ Represents total unpaid pledges of $14,903,423 less $400,000 in future years' pledges unpaid as at 31 December 1995.

Statement III

Cash flows for the biennium 1996–1997 ended 31 December 1997[a]

(Thousands of United States dollars)

	UNU/HQ Operating Fund	UNU/WIDER Operating Fund	UNU/INTECH Operating Fund	UNU/IIST Operating Fund	UNU/INRA Operating Fund	UNU/BIOLAC Operating Fund	UNU/IAS Operating Fund
Cash flows from operating activities							
Net excess (short fall) of income over expenditure (Statement I)	1,951	(77)	(209)	393	(497)	(475)	527
(Increase) decrease in contributions receivable	-	-	-	-	50	-	-
(Increase) decrease in other accounts receivable	(333)	21	35	(32)	182	-	(1,369)
(Increase) decrease in other assets	32	(2)	4	1	-	-	-
Increase (decrease) in unliquidated obligations	(388)	(247)	692	(31)	26	(33)	696
Increase (decrease) in accounts payable	1,518	178	350	(209)	508	(525)	1
Increase (decrease) in other liabilities	-	-	-	-	-	-	-
Less: Interest income	(975)	(166)	(104)	-	-	-	-
NET CASH FROM OPERATING ACTIVITIES	1,805	(293)	768	122	269	(1,033)	(145)
Cash flows from investing and financing activities							
(Increase) decrease in investments	-	-	-	-	-	-	-
(Increase) decrease in inter-fund balances receivable	6,541	(1,661)	(798)	64	(380)	962	-
Increase (decrease) in inter-fund balances payable	371	-	(50)	-	-	-	-
Plus: Interest income	975	166	104	-	-	-	-
NET CASH FROM INVESTING AND FINANCING	7,887	(1,495)	(744)	64	(380)	962	-
Cash flows from other sources							
Savings on, or cancellation of, prior periods' obligations	997	459	103	138	111	71	145
Transfers to (from) other funds	-	-	-	-	-	-	-
Other adjustments to reserves and fund balances	-	-	-	-	-	-	-
NET CASH FROM OTHER SOURCES	997	459	103	138	111	71	145
Net Increase (Decrease) in Cash and Term Deposits	10,689	(1,329)	127	324	-	-	-
CASH AND TERM DEPOSITS,BEGINNING OF PERIOD	14,525	3,391	2,310	340	-	-	-
CASH AND TERM DEPOSITS, END OF PERIOD	25,214	2,062	2,437	664	-	-	-

	Total Operating Fund		Total Endowment Fund		Grand Total	
	1997	1995	1997	1995	1997	1995
Cash flows from operating activities						
Net excess (short fall) of income over expenditure (Statement I)	1,613	2,396	(4,561)	37,185	(2,948)	39,581
(Increase) decrease in contributions receivable	50	106	3,949	11,773	3,999	11,879
(Increase) decrease in other accounts receivable	(1,496)	(1,886)	(2,281)	1,406	(3,777)	(480)
(Increase) decrease in other assets	35	20	-	-	35	20
Increase (decrease) in unliquidated obligations	715	1,157	-	-	715	1,157
Increase (decrease) in accounts payable	1,821	3,300	-	-	1,821	3,300
Increase (decrease) in other liabilities	-	-	(150)	(10,150)	(150)	(10,150)
Less: Interest income	(1,245)	(1,232)	(31,483)	(31,876)	(32,728)	(33,108)
NET CASH FROM OPERATING ACTIVITIES	1,493	3,861	(34,526)	8,338	(33,033)	12,199
Cash flows from investing and financing activities						
(Increase) decrease in investments	-	-	44,199	(2,784)	44,199	(2,784)
(Increase) decrease in inter-fund balances receivable	4,728	(4,375)	(563)	24	4,165	(4,351)
Increase (decrease) in inter-fund balances payable	321	(932)	(4,486)	5,283	(4,165)	4,351
Plus: Interest income	1,245	1,232	31,483	31,876	32,728	33,108
NET CASH FROM INVESTING AND FINANCING	6,294	(4,075)	70,633	34,399	76,927	30,324
Cash flows from other sources						
Savings on, or cancellation of, prior periods' obligations	2,024	1,873	-	-	2,024	1,873
Transfers to (from) other funds	-	-	-	-	-	-
Other adjustments to reserves and fund balances	-	(3,081)	-	3,081	-	-
NET CASH FROM OTHER SOURCES	2,024	(1,208)	-	3,081	2,024	1,873
Net Increase (Decrease) in Cash and Term Deposits	9,811	(1,422)	36,107	45,818	45,918	44,396
CASH AND TERM DEPOSITS,BEGINNING OF PERIOD	20,566	21,988	-	-	20,566	21,988
CASH AND TERM DEPOSITS, END OF PERIOD	30,377	20,566	36,107	45,818	66,484	66,384

a/ See notes 2, 3 and 4.

The accompanying notes are an integral part of the financial statements.

Statement IV

Appropriations for the biennium 1996–1997 ended 31 December 1997

(Thousands of United States dollars)

Appropriation sections	Appropriations	Expenditures			Balance
		Disbursements	Unliquidated obligations	Total	
UNU/HQ	21,840	14,394	637	15,031	6,809
Personnel Cost	4,330	4,935 a/	458	5,393	(1,063)
General Expenses	14,592	7,917	1,579	9,496	5,096
Research, training networks and dissemination	6,000	3,876	253	4,129	1,871
HQ building	46,762	31,122	2,927	34,049	12,713
Sub total					
UNU/WIDER	2,728	2,452	125	2,577	151
Personnel Costs	943	1,060 b/	53	1,113	(170)
General Expenses	2,411	1,296	841	2,137	274
Research, training networks and dissemination	6,082	4,808	1,019	5,827	255
Sub total					
UNU/INTECH	2,820	2,632	9	2,641	179
Personnel Costs	797	914 c/	318	1,232	(435)
General Expenses	2,079	1,348	622	1,970	109
Research, training networks and dissemination	5,696	4,894	949	5,843	(147)
Sub total					
UNU/IIST	1,887	2,222	1	2,223	(336)
Personnel Costs	835	929 d/	4	933	(98)
General Expenses	1,632	814	224	1,038	594
Research, training networks and dissemination	4,354	3,965	229	4,194	160
Sub total					

[a] Includes loss on exchange in the amount of $1,549,953

[b] Includes loss on exchange in the amount of $306,721

[c] Includes loss on exchange in the amount of $323,426

[d] Includes loss on exchange in the amount of $16,483

Appropriation sections	Appropriations	Expenditures			Balance
		Disbursements	Unliquidated obligations	Total	
UNU/INRA					
Personnel Costs	437	509	42	551	(114)
General Expenses	177	205	52	257	(80)
Research, training networks and dissemination	329	197	99	296	33
Sub total	943	911	193	1,104	(161)
UNU/BIOLAC					
Personnel Costs	-	-	-	-	-
General Expenses	33	9	-	9	24
Research, training networks and dissemination	1,079	710	67	777	302
Sub total	1,112	719	67	786	326
UNU/IAS					
Personnel Costs	4,934	2,285	120	2,405	2,529
General Expenses	1,581	1,440	74	1,514	67
Research, training networks and dissemination	6,495	5,372	898	6,270	225
Sub total	13,010	9,097	1,092	10,189	2,821
GRAND TOTAL	77,959	55,516	6,476	61,992	15,967

Notes to the financial statements

Note 1. United Nations University and its activities

(a) The charter of the United Nations University (UNU) was adopted by the General Assembly on 6 December 1973 [resolution 3081 (XXVIII)].

(b) The mission of UNU, a non-traditional international educational institution, is to carry out scholarly work of the highest quality to help resolve pressing global problems of human survival, development and welfare. Towards this end, UNU focuses its research, postgraduate education and knowledge dissemination activities on the most critical problems of concern to the United Nations, particularly as they affect developing countries.

(c) Through its work, UNU strives to achieve two main goals: to strengthen the capacities of institutions of higher learning in developing countries to carry out high-quality research and training, and to make scholarly and policy-relevant contributions to the work of the United Nations.

(d) The University seeks to contribute to the work of the United Nations by serving as a reservoir of ideas and a catalyst for research and advanced training on policy-relevant issues. UNU disseminates the knowledge developed or illuminated through its efforts widely and in innovative media.

(e) UNU also seeks to strengthen the capacities of developing country institutions by bridging the gaps between these institutions and those in the industrial countries and promotes academic exchange among developing countries through networking. UNU efforts are targeted at institutions where it is possible to leverage additional human and financial resources and to enhance the cumulative impact of UNU capability-strengthening initiatives. The objective of UNU institution building is to create new centres of excellence in areas of importance to national development programmes.

(f) Academic activities under the UNU third medium-term perspective are carried out within four programme areas:

(i) University human values and global responsibilities;

(ii) New directions for the world economy;

(iii) Sustaining global life support systems; and

(iv) Advances in science and technology.

(g) To accomplish these objectives, the UNU Centre in Tokyo plans, coordinates and funds academic activities carried out through the Academic Division located at its headquarters in Tokyo and through eight research and training centres and programmes:

(i) The UNU World Institute for Development Economics Research (UNU/WIDER) in Helsinki;

(ii) The UNU Institute for New Technologies (UNU/INTECH) in Maastricht, the Netherlands;

(iii) The UNU International Institute for Software Technology (UNU/IIST) in Macau;

(iv) The UNU Institute for Natural Resources in Africa (UNU/INRA) in Accra;

(v) The UNU Programme for Biotechnology in Latin America and the Caribbean (UNU/BIOLAC) in Caracas;

(vi) The UNU Institute of Advanced Studies (UNU/IAS) in Tokyo;

(vii) The UNU International Leadership Academy (UNU/ILA) in Amman;

(viii) The UNU International Network on Water, Environment and Health (UNU/INWEH) in Hamilton, Canada.

Note 2. Summary of significant accounting policies

The following are the significant accounting policies of UNU:

(a) The UNU accounts are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Administration and Management or the Controller. They also take fully into account the United Nations System Accounting Standards, as adopted by the Administrative Committee on Coordination. The General Assembly has taken note of these standards in its resolution 48/216 C. UNU follows international accounting standard 1 on the disclosure of accounting policies, as modified and adopted by the Consultative Committee on Administrative Questions at its fifty-fourth session, as shown below:

(i) Going concern, consistency, and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies which have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. The policies should normally be disclosed in one place;

(v) Financial statements should show corresponding figures for the preceding period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified;

(b) The UNU accounts are maintained on a "fund accounting" basis. Separate funds for general or special purposes may be established by the General Assembly or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Each fund is reported separately in the financial statements;

(c) The financial period of UNU is a biennium and consists of two consecutive calendar years;

(d) The income, expenditure, assets and liabilities are recognized on the accrual basis of accounting;

(e) The accounts of UNU are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the Controller. In respect of such currencies, the financial statements, prepared at such intervals as may be prescribed by the Controller

under delegation of authority from the Under-Secretary-General for Administration and Management, shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of United Nations rates of exchange for the last month of the financial period, a footnote will be presented quantifying the difference;

(f) The UNU financial statements are prepared on the historical cost basis of accounting and have not been adjusted to reflect the effects of changing prices for goods and services;

(g) The UNU financial statements are presented in accordance with the ongoing recommendations of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) Working Party on Financial Statements. In the interest of harmonizing the presentation of financial statements within the entire United Nations system, the recommended standards require the presentation of financial results for the University's activities in statements I and II, a statement III presentation of its budget cash flows, and a statement IV presentation of the status of its budget appropriations;

(h) Certain reclassifications have been made to some of the comparative numbers shown in the financial statements for the biennium 1994-1995 in order for them to conform to the new financial statement formats. None of these reclassifications of the 1995 numbers represents any real change in the financial results for that period.

(i) Income and expenditure and changes in reserves and fund balances, as follows:

(i) The University derives its income from two sources – income from an Endowment Fund and contributions to the Operating Funds;

(ii) Pledged voluntary contributions from Governments to the Endowment Fund are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specified time or times. Pledges for future years are recorded as other liabilities;

(iii) All government contributions, unless otherwise specified, are credited to the Endowment Fund. The income derived from the investment of the endowment Fund is allocated for the financing of the entities of the University in accordance with the ratio of contributions to the Endowment Fund from the respective donors;

(iv) Allocations from other funds represent subventions from the Endowment Fund;

(v) Contributions for the University headquarters buildings represent contributions received from the United Nations and other organizations that occupy their offices in the building and from outside users of the conference and exhibition facilities;

(vi) Interest income includes all interest and related investment income earned on invested funds, various bank accounts and time deposits;

(vii) Miscellaneous income includes sale of used or surplus property, refunds of expenditures charged to prior periods, income resulting from net gains in currency transactions, monies accepted for which no purpose was specified and other sundry income;

(viii) Other adjustments to reserves and fund balances represent the amounts reinvested in the Endowment Fund as approved by the University Council;

(j) Assets:

(i) Cash and term deposits comprise funds on deposits, certificate of deposits and call accounts;

(ii) Investments comprise investment in bonds and equities managed by the United Nations Investment Management Service. Apart from changes in value arising from the retranslation of currencies as provided for in subparagraph (e) above, all investments are stated at cost. No provision is made for amortization of premiums or discounts which are taken into account as part of the gain or loss when investments are sold;

(iii) The balances of unpaid contributions due from Governments are reported in schedule 2.1;

(iv) For balance-sheet statement purposes, only that portion of the education grant advances which is assumed to pertain to the scholastic years completed as at the date of the financial statement is shown under deferred charges. The full amount of the advances is maintained as accounts receivables from staff members until such time as the staff member produces the required proof of entitlement to the education grant, at which time the budgetary accounts are charged and advances settled;

(v) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the University. Acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is recorded in memoranda accounts, and is disclosed in notes to the financial statements;

(k) Liabilities and reserves and fund balances:

(i) Other liabilities include pledged contributions for future periods;

(ii) Working capital funds represent the Endowment Fund;

(iii) Authorized retained surplus represents the amounts set aside, as contingency funds approved by the University Council, to cover any shortfall or delay in the payment of expected contributions, compensate any reduction in estimated income due to currency fluctuations, and cover any special maintenance costs for the headquarters building;

(iv) Balances related to projects funded by donors represent the amount of specific programme contributions unspent during the period;

(l) Trust funds may be established by the Rector. The University follows the general provisions of the Secretary-General's bulletin on the establishment and management of trust funds (ST/SGB/188) and also its supporting administrative instructions (ST/AI/284, ST/AI/285 and ST/AI/286), although as indicated in paragraph 3 of ST/SGB/188, that bulletin does not apply to such institutions as UNU, which are subject to the administrative authority of their executive heads.

Note 3. Income and expenditure and changes in reserves and fund balances (statement I); assets, liabilities and reserves and fund balances (statement II); and cash flow (statement III)

(a) Statements I, II, and III contain financial results for all UNU funds, which are totalled into seven groups of related funds, namely UNU headquarters, UNU/WIDER,

UNU/INTECH, UNU/IIST, UNU/INRA, UNU/BIOLAC and UNU/IAS, and after eliminations consolidated into a grand total reflecting all activities of the organization. This consolidated presentation should not be interpreted to mean that any of the individual funds can be used for any other purpose than that for which it is authorized;

(b) To comply with the new uniform financial statement formats, statement I includes two calculations of the excess (shortfall) of income over expenditure. The first calculation is used on income and expenditure only for the current period in the biennium. The second calculation shown is a net one, which includes any prior period adjustments to income or expenditure.

Note 4. United Nations University funds (statements I, II and III)

(a) Cash and term deposits, and investments. The following table is a status of the cash and investments by currencies and by type of investments (in thousands of United States dollars) included in statement II as at 31 December 1997.

	Total		*Total*
United States dollars	164 700	Cash and deposits	66 484
Japanese yen	28 368		
Netherlands guilders	19 816		
Finnish markkaa	4 941	Bonds	173 643
Others	83 406	Equities	61 104
Total	**301 231[a]**	**Total**	**301 231[a]**

[a] The market value of the funds as at 31 December 1997 amounted to $316 million

(b) Voluntary contributions from Governments receivable. The following table is an aged analysis of the pledged contributions unpaid (in thousands of United States dollars) included in statement II at 31 December 1997.

	Less than two years Future years	*More than two years less than five years*	*More than five years*	*Total*
France	—	—	3 044	3 044
India	325	—	—	325
Ghana	—	—	3 750	3 750
Macau	—	3	—	3
United Republic of Tanzania	—	—	20	20
Venezuela	—	—	3 003	3 003
Zambia	—	—	759	759
Total	**325**	**3**	**10 576**	**10 904**

(c) Non-expendable property. In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of UNU but is charged against the current budget when acquired. The following table shows the non-expendable property (in thousands of United States dollars), at UNU headquarters and the UNU research

and training centres and programmes, according to the cumulative inventory records (as purchased by UNU) at 31 December 1997:

UNU headquarters, Tokyo	2 075
UNU/office in North America, New York	66
UNU/office in Europe, Paris	38
UNU/WIDER, Helsinki	253
UNU/INTECH, Maastricht, the Netherlands	160
UNU/IIST, Macau	474
UNU/INRA, Accra	95
UNU/INRA Unit, Lusaka	130
UNU/BIOLAC, Caracas	13
UNU/IAS, Tokyo	1 994
Total	**5 298**

In addition to the above-listed inventory records, furniture and equipment for UNU headquarters and the research and training centres and programmes have been made available by the respective host countries, and certain private donations have also been received. Separate inventory records are maintained for such furniture and equipment and donated items;

(d) Other accounts receivable. The following table is an aged analysis of other accounts receivable (in thousands of United States dollars) included in statement II at 31 December 1997.

	Less than one year	*More than one year*	*Total*
Staff	237	29	266
Vendor	21	67	88
Accrued interest	7 035	—	7 035
Others	5 465	—	5 465
Total	**12 758**	**96**	**12 854**

(e) Other assets. The following table is an analysis of other assets (in thousands of United States dollars) included in statement II at 31 December 1997.

	Total
Education grant advances	28
Charges in transit from offices away from Tokyo (inter-office vouchers)	210
Total	**238**

(f) Other accounts payable. The following table is an analysis of other accounts payable (in thousands of United States dollars) included in statement II at 31 December 1997.

	Total
Staff	2
Vendors	—
United Nations headquarters	1 034
Others	5 889
Total	**6 925**

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